

# Recent Money Market and Credit Developments

**DURING** the two quarters ending in March of this year, there were sharp increases—\$3 billion and \$4¼ billion at annual rates—in gross private domestic investment.<sup>1</sup> The fourth quarter rise was mainly in inventories, while the first quarter advance was concentrated in business fixed investment.

The fourth quarter investment rise was matched principally by a similar jump in personal saving, which fell back during the first quarter to the third quarter level. A \$4 billion increase in undistributed corporate profits and a \$5 billion narrowing in the Federal Government deficit more than offset the first quarter drop in personal saving and eased the financing of the rise in business investment. The total volume of financing moved up over this period. The increase was in business borrowing from banks, in security loans, and in consumer credit extensions. Mortgage financing and Federal Government borrowing declined, and there was little change in other debt categories.

The response of financial markets to this increased demand for funds was also facilitated by the operations of the Federal Reserve, which engaged in open market transactions in sufficient volume to support a record peacetime expansion in bank credit with only moderate additional pressure on bank reserves.

Short-term interest rates rose in response to the rise in the rediscount rate last fall, but there was little change in most longer term rates.

## Financial Institutions

During the 6 months that ended in March, monetary policy was used to maintain the availability of credit to domestic borrowers, while limiting the outflow of capital to foreign countries. Commercial banks accommodated the

largest bank credit expansion in peacetime, with only moderate further impairment of their reserve positions. The volume of lending by nonbank financial institutions was little changed in the aggregate. Interest rates on short-term marketable instruments rose moderately, while most other interest rates were about the same or slightly lower at the end of the period as they were at the beginning.

## Monetary policy

In late November, the Federal Reserve raised its discount rate from 3½ to 4 percent and increased maximum interest rates payable on time and savings deposits. These actions were taken in order to limit possible capital outflows seeking to take advantage of higher foreign interest rates. Aided by a sharp rise in the forward discount on sterling, these steps reduced the incentive for short-term investment by Americans, particularly in the British money market.

Although the rise in rates implied an increase in bank borrowing costs, the Federal Reserve acted to maintain the availability of credit to domestic borrowers. The Chairman of the Board of Governors of the Federal Reserve System announced publicly that the discount rate increase did not signal reduced credit availability. The Federal Reserve increased open market operations to meet a record volume of credit demands—particularly during the first quarter—but there was also some rise in the proportion of bank reserves borrowed from the Federal Reserve.

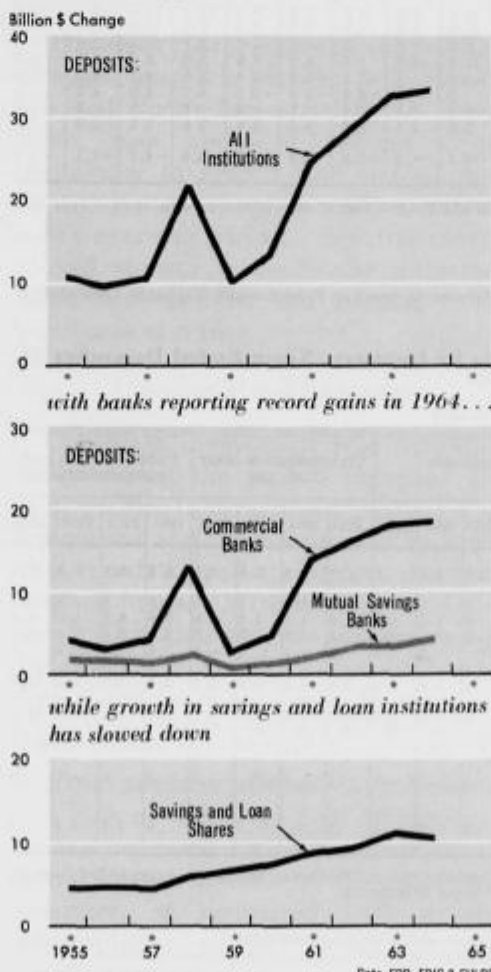
## Record expansion in bank credit

During the first quarter of this year, bank loans and investments rose \$8½ billion (seasonally adjusted), about double the fourth quarter rate and more than one-fifth above the previous record in the second quarter of 1958. The rise in bank credit reflected mainly an expanded demand for business and security loans and continued strength in consumer, real estate, and other loans. This heavy demand for loan accommodation, in conjunction with expanded bank investment in tax-exempt securities, induced the banks to lower U.S. security holdings by \$2 billion.

Early in the year, bank lending to

## Deposit Growth

*Deposits in financial institutions have continued to grow . . .*



<sup>1</sup> Money and credit developments in the first 3 quarters of 1964 were discussed in the November 1964 SURVEY.

foreigners continued at a substantial rate, so that by the end of the quarter many banks had reached the ceiling for foreign lending established in February by the administration's voluntary balance of payments program. Under that program, aggregate foreign assets of the banks were to increase during 1965 by not more than 5 percent over

the amount outstanding at the end of 1964, with priority given to financing exports, less developed countries, and countries in balance of payments difficulties.

The rapid expansion in commercial bank credit was accompanied by a record expansion in bank deposits. With rates on time and savings de-

posits being increased, time deposits rose \$6 billion in the first quarter, more than 20 percent above the fourth quarter 1964 pace and about one-sixth more than the previous high during the first quarter of 1962. Demand deposits showed little rise during the first quarter after a \$1 billion increase in the fourth quarter of last year.

Table 1.—Sources and Uses of Corporate Funds, Annual, 1961-64; Half Years, 1961-64<sup>1</sup>

	(Billions of dollars)											
	1961	1962	1963	1964	1st half				2d half			
	1961	1962	1963	1964	1961	1962	1963	1964	1961	1962	1963	1964
Sources, total.....	52.3	59.2	62.5	64.6	30.3	27.1	29.3	28.6	22.0	22.1	23.3	26.1
Internal sources, total.....	28.7	35.2	38.5	42.1	14.9	17.6	18.3	21.2	15.5	17.0	18.7	20.9
Retained profits <sup>2</sup> .....	5.8	7.7	8.0	11.6	2.4	4.0	4.0	6.2	3.2	3.7	4.0	5.4
Depreciation.....	24.1	27.5	28.5	30.5	11.5	13.6	14.2	15.0	12.3	13.9	14.6	15.5
External long-term sources, total.....	11.8	11.3	10.8	13.4	6.6	5.9	5.2	6.6	6.5	5.4	5.6	6.9
Stocks.....	4.6	2.1	1.8	2.9	2.8	1.4	1.6	2.1	1.7	1.5	1.1	1.9
Bonds.....	5.1	9.0	9.0	10.5	2.7	2.7	2.6	3.0	2.4	2.3	2.5	3.0
Other debt.....	2.2	0.2	0.0	0.0	1.1	1.7	2.2	1.4	1.3	2.5	2.0	3.0
Short-term sources, total.....	10.8	12.8	14.8	11.1	1.7	2.7	5.8	1.8	11.3	2.1	2.0	10.3
Bank loans.....	4.4	5.8	4.4	2.9	1.4	1.6	1.4	1.4	1.4	2.4	1.3	4.8
Trade payables.....	7.4	6.5	6.6	8.8	1.7	1.3	4.6	1.3	6.7	4.2	2.2	4.8
Federal income tax liabilities.....	1.7	1.9	1.2	1.7	1.1	1.0	1.0	1.0	2.6	1.4	2.0	1.7
Other.....	2.3	3.2	2.6	2.0	1.3	2.3	2.0	1.9	1.1	1.0	1.4	1.1
Uses, total.....	46.4	54.4	58.4	61.3	19.5	25.3	25.2	24.9	24.8	29.0	32.2	34.3
Increases in physical assets, total.....	30.9	34.4	37.5	42.8	14.5	15.0	13.4	20.7	14.4	17.4	19.2	22.1
Plant and equipment.....	28.6	32.0	35.5	39.4	12.6	13.1	12.4	18.0	15.7	18.9	18.4	21.4
Inventories (book value).....	1.3	4.4	3.7	2.4	1.9	1.9	2.9	2.7	1.7	1.5	1.8	1.7
Increases in financial assets, total.....	17.8	18.0	20.8	18.4	5.3	5.3	7.8	6.2	12.5	11.6	13.0	12.2
Receivables.....	9.9	11.9	12.8	13.9	2.9	5.4	6.3	5.8	7.0	6.9	6.6	8.8
Consumer.....	1.1	1.9	2.4	2.7	1.0	1.3	1.3	1.1	2.1	2.6	2.8	2.8
Other.....	8.8	10.0	10.4	11.1	1.9	4.1	5.0	4.7	4.9	4.3	3.8	5.8
Cash and U.S. Government securities.....	3.6	2.0	2.0	1.0	1.4	1.0	2.5	2.4	5.0	4.7	4.5	1.4
Cash (including deposits).....	3.8	1.8	1.7	1.8	1.1	1.0	2.0	2.0	5.7	4.2	4.2	2.8
U.S. Government securities.....	1.2	0.2	0.3	0.8	0.3	0.0	0.5	0.4	0.3	0.5	0.3	1.1
Other assets.....	4.3	4.7	5.9	5.6	2.4	3.5	4.0	3.4	2.0	1.1	1.9	2.2
Discrepancy (uses less sources).....	-3.8	-4.9	-4.1	-6.4	-1.5	-1.8	-3.1	-1.7	-3.1	-3.1	-1.1	-3.7

1. Data for 1964-65 may be found in Table V-10 of U.S. Income and Output, 1965-68 estimates are in Table 24 of July 1965 Survey, and 1969-70 are in Table 24 of July 1964 Survey.

2. Excludes banks and insurance companies.

3. Includes depletion.

4. Less than \$50 million.

Sources: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission, and other financial data.

Table 2.—Sources and Uses of Corporate Funds by Industry, Years Ended December 31, 1961-64<sup>1</sup>

	(Billions of dollars)															
	Manufacturing and mining				Railroads				Transportation other than rail				Public utilities and communications			
	1961	1962	1963	1964	1961	1962	1963	1964	1961	1962	1963	1964	1961	1962	1963	1964
Sources, total.....	28.8	25.8	25.5	22.3	1.8	1.7	1.0	1.9	1.0	1.0	2.5	2.1	6.6	3.1	7.9	18.4
Retained profits <sup>2</sup> .....	5.1	6.1	6.8	9.9	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.4	0.3	0.8	1.1
Depreciation.....	11.7	12.6	14.1	14.7	0.8	1.0	1.0	1.0	1.5	1.7	1.8	1.8	2.8	4.2	4.6	4.8
External long-term sources <sup>3</sup> .....	2.5	3.4	2.6	1.7	0.2	0.2	0.2	0.2	0.3	0.1	0.3	0.3	3.8	3.4	1.9	4.0
Short-term sources <sup>4</sup> .....	4.6	2.8	4.1	0.0	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.4	0.7	0.7	0.6
Uses, total.....	22.2	22.9	26.7	25.7	0.9	0.9	1.4	1.4	2.9	1.8	2.2	2.2	9.4	18.1	9.9	11.7
Plant and equipment.....	14.6	15.5	16.4	19.6	0.7	0.8	1.1	1.4	1.7	1.8	1.6	2.1	8.7	8.1	6.4	10.5
Inventories (book value).....	1.8	2.0	2.2	2.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receivables and other assets.....	5.1	3.1	4.8	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.6	0.2	0.9
Cash and U.S. Government securities.....	1.3	1.7	2.2	1.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Discrepancy (uses less sources).....	-1.4	-3.0	-2.6	-5.5	-0.4	-0.2	-0.4	-0.5	1.9	0.8	-0.3	-0.1	-2.8	-15.0	-1.0	-3.3

1. Data for the year ended June 30, 1967 may be found on p. 17 of the October 1966 Survey, and for the years ended June 30, 1968-69 and years ended December 31, 1967-69 on p. 9 of the November 1964 Survey.

2. Includes depletion.

3. Less than \$50 million.

4. Includes stocks, bonded debt, long-term bank loans, mortgages and other long-term debt.

5. Includes short-term bank loans, trade payables, Federal income tax liabilities, and miscellaneous liabilities.

Sources: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission, and other financial data.

### Other financial institutions

Among nonbank financial institutions, there was a slowdown in lending by savings and loan associations and an increase in investment by life insurance carriers, mutual savings banks, and open-end investment companies. All told, these institutions probably contributed about the same amount to total financing in the fourth and first quarters as they had during earlier quarters of 1964.

Savings and loan associations did not match the increases in rates paid by commercial banks on savings deposits, and during the past 6 months, the flow of saving into the associations declined from the pace reached earlier in 1964.

Table 3.—Personal Investment and Related Financing, 1960-64<sup>1</sup>

	(Billions of dollars)				
	1960	1961	1962	1963	1964
Investment.....	54.8	55.4	59.2	48.4	42.2
New nonfarm housing.....	18.9	16.8	17.9	13.3	12.8
Noncorporate inventories and fixed investment.....	17.0	15.8	21.8	22.7	23.4
Borrowing.....	27.4	28.9	37.9	43.5	45.6
Residential mortgage debt, gross of amortization.....	20.2	21.6	24.6	28.1	29.6
Business and farm debt.....	7.2	8.0	13.4	15.4	15.4

<sup>1</sup> Estimates for the 1960-67 period may be found on p. 14 of the April 1961 Survey, for 1968 on p. 12 of the May 1963 Survey, and for 1969 on p. 14 of the May 1964 Survey.

Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, and U.S. Department of Commerce, Office of Business Economics.

Table 4.—Personal Consumption Expenditures and Related Financial Flows, 1960-64<sup>1</sup>

	(Billions of dollars)				
	1960	1961	1962	1963	1964
Personal consumption expenditures, total.....	328.2	327.3	355.8	375.0	399.8
Durable only.....	44.9	42.7	48.4	52.1	57.8
Consumer borrowing <sup>2</sup> .....	50.4	50.2	58.8	62.3	67.1
Secured by durables <sup>3</sup> .....	32.1	30.6	36.5	39.0	42.7

<sup>1</sup> Estimates for the 1960-67 period may be found on p. 14 of the April 1961 Survey, for 1968 on p. 12 of the May 1963 Survey, and for 1969 on p. 14 of the May 1964 Survey.

<sup>2</sup> Gross of payments on installment debt.

Sources: Board of Governors of the Federal Reserve System, and U.S. Department of Commerce, Office of Business Economics.

With one- to four-family residential construction showing little sign of increase, many associations decided not to step up competition with other lenders for the supply of mortgages being generated lest the quality of the loans be compromised. Furthermore, the Federal Home Loan Bank Board last year imposed on member associations new regulations that have the effect of requiring rapidly growing associations to build up their surpluses and thus tend to limit the amount of earnings that can be paid out in dividends. Savings and loan associations lent a somewhat lower volume than in previous quarters.

The gain in deposits of mutual savings banks slowed moderately during the past 6 months, but their lending was little changed. Life insurance carriers continued to increase their lending in line with their long-term growth. The

carriers stepped up their investments in mortgages and corporate stocks and reduced their lending to foreigners. The sale of open-end investment company shares rose to a level comparable with the previous record attained in mid-1962. Practically all of these funds were invested in corporate stocks.

### Financial markets

Since the discount rate was increased from  $3\frac{1}{2}$  to 4 percent in November, short-term market rates have advanced one-third of a percentage point. Market yields on longer term securities, reported interest charges on bank loans to business, and yields on FHA and conventional first mortgages have shown little change over this period.

The failure of short-term market rates to advance as much as bank borrowing costs and the stability in other lending rates stemmed in large part from the efforts of the Federal Reserve to make credit readily available while putting only moderate pressure on bank reserves.

The stock market showed substantial strength over this period. The Standard and Poor's Industrial Stock Price index rose about 4 percent from September to March, and the volume of trading averaged 5 million shares a day over this period. Security credit moved up on a seasonally adjusted basis, and odd-lot and mutual fund purchases also rose.

### Corporate Finance

Corporate investment rose substantially during the past 6 months. In fact, the rise in investment in plant and equipment and inventories was so large that it outstripped a near-record rise in internal funds. With holdings of liquid assets little changed, the resultant need for external financing was met primarily by a sharp rise in borrowing from banks.

### Investment up sharply

Total nonfarm business inventories—the bulk of which are held by corporations—increased by over \$6 billion at annual rates in each of the past two quarters, as compared with a net accumulation of \$2¼ billion in the third quarter of last year. In the fourth quarter, the rise in inventories

was particularly large in manufacturing and was associated with anticipations of a possible steel strike. In the first quarter, trade inventories rose following a fourth quarter decline; much of this swing was attributable to a recovery in auto dealers' stocks.

Nearly all industry groups increased their plant and equipment outlays, which rose by an annual rate of  $\$3\frac{1}{4}$  billion, or 8 percent, from the third quarter of last year to the first quarter of this year. The rises were particularly marked in the railroad and manufacturing groups, where outlays were up 16 and 11 percent respectively.

Increased business activity was reflected in an accelerated growth of trade and consumer credit. Both developments also contributed to corporate financing needs.

### Internal funds rise

The sharp spurt in corporate profits from the fourth to the first quarter, a decline in corporate tax rates, and a continued growth in capital consumption allowances all contributed to the largest rise in internal funds recorded for any quarter. However, the  $\$4\frac{1}{2}$  billion advance was substantially below

CHART 6  
**Interest Rates**

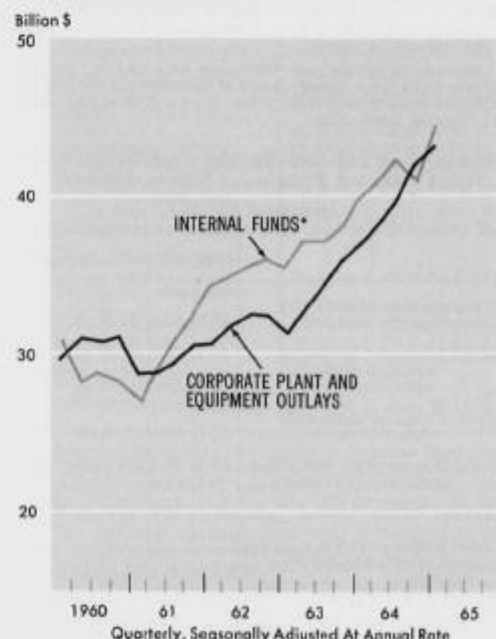
Short-term rates have moved up since last fall...



U.S. Department of Commerce, Office of Business Economics

65-56

CHART 7  
**Corporate Fixed Investment and Internal Funds**



U.S. Department of Commerce, Office of Business Economics

Data: SEC & OBE  
65-57

the increase in investment fund requirements over the past two quarters.

After fluctuating in the \$57 billion-\$58 billion range during the last three quarters of 1964, corporate profits

Table 5.—Persons' Financial Asset Accumulation and Debt Operation, 1960-64<sup>1</sup>

(Billions of dollars)

	1960	1961	1962	1963	1964
Financial asset accumulation...	26.1	29.3	37.8	41.1	44.3
Life insurance and pension reserves...	3.2	10.2	10.8	11.2	12.3
Insurance reserves...	4.2	4.3	5.0	4.8	5.4
Pension reserves...	5.0	5.8	5.8	5.4	6.9
Other financial assets...	10.9	18.9	27.1	29.8	34.3
Fixed-value claims...	10.6	18.9	25.4	28.5	30.0
Currency and demand deposits...	-2.2	-2.2	3.1	6.6	7.5
Time and savings deposits at banks...	4.0	6.6	14.9	10.9	18.3
Savings and loan and credit union shares...	8.3	8.4	10.0	11.8	11.3
U.S. savings bonds, series A thru K...	-2.2	0.9	4.1	1.2	0.9
Marketable securities...	-1.1	-1.3	-1.3	-1.7	4.3
U.S. Government bonds and local government securities...	-2.7	-1.5	0.8	0.0	3.0
Corporate and other securities...	1.7	1.1	0.3	1.8	2.1
Redemption of amortized debt...	1.1	0.5	-2.2	-2.8	-1.8
Nonfarm residential mortgages...	58.2	57.8	61.7	67.3	73.8
Consumer installment credit...	0.9	10.1	11.1	12.0	13.4
New borrowing <sup>2</sup> ...	77.8	80.2	84.7	105.8	112.2
Residential and business (table 3)...	37.4	30.0	37.0	43.4	46.0
Consumer and security credit...	40.4	50.2	68.8	62.3	67.1
Net increase in debt...	22.6	22.4	33.9	38.5	39.4
Residential and business (table 3)...	18.2	19.0	26.8	31.3	32.8
Consumer and security credit...	4.4	2.5	6.1	7.2	6.7
Financial asset accumulation less increase in debt...	-2.6	8.7	4.9	2.4	7.0

<sup>1</sup> Estimates for the 1948-57 period may be found on p. 17 of the April 1961 Survey, for 1958 on p. 14 of the May 1963 Survey, and for 1960 on p. 15 of the May 1964 Survey.

<sup>2</sup> Gross of redemptions.

Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, Board of Governors of the Federal Reserve System, and U.S. Department of Commerce, Office of Business Economics.

Table 6.—Personal Saving and Investment and Related Financial Flows, 1960-64<sup>1</sup>

(Billions of dollars)

	1960	1961	1962	1963	1964
Investment in housing and noncorporate business...	36.8	35.0	39.2	41.0	42.2
Less: Associated borrowing...	27.4	32.0	37.0	43.5	46.0
Capital consumption allowances...	18.5	16.8	17.4	18.7	18.2
Plus: Financial assets and debt retirement...	75.8	87.0	90.8	108.4	120.1
Less: Consumption borrowing...	50.4	50.2	58.9	52.3	57.1
Statistical discrepancy...	-3.9	-1.3	-1.1	-2.3	-2.4
Equals: Personal saving...	21.7	27.3	27.6	27.5	32.4
Total sources of funds...	116.2	124.4	130.9	152.4	154.9
Total uses of funds less discrepancy...	116.2	124.4	130.9	152.4	154.9

<sup>1</sup> Estimates for 1940-57 period may be found on p. 20 of the April 1961 Survey, for 1958 on p. 15 of the May 1963 Survey, and for 1960 on p. 16 of the May 1964 Survey.

Sources: Board of Governors of the Federal Reserve System, Securities and Exchange Commission, and U.S. Department of Commerce, Office of Business Economics.

(including banks and insurance companies) spurred to \$62½ billion during the first quarter as output increased by \$14 billion. The second stage of the 1964 tax cut—a 2 percentage point drop in the top corporate tax rate—became effective in the first quarter. The associated \$1½ billion fall in tax liabilities held the first quarter rise in corporate taxes to \$1½ billion, and roughly \$4½ billion of the rise in before-tax profits was carried down to after-tax profits. With dividend payments up one-third of a billion dollars, corporate undistributed profits rose \$4½ billion or 36 percent. A one-half billion dollar

rise in capital consumption allowances brought internal funds to \$50½ billion, \$5 billion above the average for the last three quarters of 1964.

### Bank borrowing up

During the economic expansion of the past 4 years, the volume of internal funds has generally been substantially above corporate plant and equipment outlays. The external financing required by corporations other than the highly leveraged utility and real estate firms has thus been limited. During the recent period, by way of contrast, there has been a spurt in corporate

Table 7.—Public and Private Debt, End of Calendar Year, 1960-64<sup>1</sup>

(Billions of dollars)

	Net debt					Gross debt				
	1960	1961	1962	1963	1964	1960	1961	1962	1963	1964
Total public and private debt...	296.2	347.6	1,615.5	1,024.7	1,171.7	1,037.2	1,108.5	1,178.9	1,262.9	1,348.4
Total public debt...	361.6	313.1	329.5	346.5	362.4	333.2	402.7	422.9	434.3	448.5
Federal Government and agency <sup>2</sup> ...	251.0	248.1	256.8	261.8	267.2	322.1	350.2	368.1	347.8	355.3
Federal Government...	235.2	241.2	245.1	251.6	257.0	280.2	296.2	305.5	300.3	317.9
Federal agency...	8.8	6.9	7.7	8.5	8.7	31.8	34.0	32.6	35.2	38.3
State and local governments <sup>3</sup> ...	66.0	65.0	72.7	79.5	85.2	67.1	72.5	50.9	60.7	62.2
State governments...	14.5	15.2	18.2	19.9	21.0	15.1	20.0	21.9	23.4	25.0
Local governments...	45.4	49.8	54.5	59.6	64.0	49.0	52.5	29.0	37.3	37.2
Total private debt...	554.2	534.7	636.8	755.2	814.4	699.9	697.8	757.0	828.6	897.9
Total, all corporations...	302.8	324.4	346.4	376.2	401.7	361.6	387.5	416.3	449.7	490.3
Long-term <sup>4</sup> ...	125.1	140.6	161.4	174.5	189.9	103.0	158.5	196.6	211.0	227.4
Short-term <sup>5</sup> ...	169.6	175.0	187.0	201.7	211.7	158.6	152.0	207.0	228.7	262.9
Notes and accounts payable...	64.7	78.0	103.3	112.0	118.0	167.6	114.2	124.0	135.1	143.5
Other <sup>6</sup> ...	74.0	78.9	83.7	89.1	94.1	26.0	81.8	97.4	109.6	109.4
Railway corporations...	11.9	11.9	11.7	11.9	11.9	12.4	12.2	13.1	13.2	12.4
Long-term <sup>4</sup> ...	9.9	9.5	9.7	9.7	9.7	11.1	10.9	10.8	10.8	10.8
Short-term <sup>5</sup> ...	2.0	2.4	2.0	2.2	2.3	2.2	2.3	2.3	2.4	2.5
Notes and accounts payable...	1.4	1.6	1.8	1.6	1.8	0.8	0.8	0.8	0.8	0.8
Other <sup>6</sup> ...	1.4	1.8	1.8	1.7	1.7	1.0	1.7	1.7	1.8	1.9
Nonrailway corporations...	290.9	312.6	335.7	364.4	389.8	348.2	374.5	403.2	436.4	469.9
Long-term <sup>4</sup> ...	126.3	132.7	151.7	164.8	178.4	105.9	169.6	194.2	200.2	218.4
Short-term <sup>5</sup> ...	164.7	179.9	184.0	199.6	211.4	142.3	204.9	210.0	236.2	251.5
Notes and accounts payable...	62.1	66.5	102.8	113.1	119.0	105.9	114.6	123.4	134.5	142.0
Other <sup>6</sup> ...	72.6	77.4	82.2	87.4	92.4	94.4	90.0	85.6	101.7	107.6
Total individual and noncorporate debt...	250.4	230.3	241.0	270.0	417.6	296.4	330.3	241.6	379.0	417.6
Farm, total <sup>7</sup> ...	25.1	27.5	30.3	33.2	35.7	25.1	27.5	30.2	33.2	35.7
Farm mortgages...	12.8	13.9	15.2	16.8	18.9	12.8	13.9	15.2	16.8	18.9
Farm production...	12.3	13.6	15.0	16.4	16.8	12.3	13.6	15.0	16.4	16.8
Nonfarm total...	225.4	202.8	210.8	243.2	381.9	271.4	292.8	211.4	345.8	381.9
Mortgages...	174.5	190.4	210.6	234.0	239.3	174.5	190.4	210.6	234.0	239.3
1-4 family residential...	134.2	146.1	167.2	171.5	187.0	134.2	146.1	167.2	171.5	187.0
Multifamily residential and commercial...	40.3	44.3	53.4	62.4	72.4	40.3	44.3	53.4	62.4	72.4
Other nonfarm <sup>8</sup> ...	88.9	92.4	100.8	111.8	122.7	88.9	92.4	100.6	111.9	122.7
Commercial...	18.6	17.9	19.3	21.2	24.7	18.6	17.9	19.3	21.2	24.7
Financial <sup>9</sup> ...	14.3	16.9	18.3	20.5	21.1	14.2	16.9	18.3	20.5	21.1
Consumer...	56.0	57.7	63.2	69.9	76.9	56.0	57.7	63.0	69.9	76.9

1. Data for State and local governments are for June 30 of each year.  
2. Estimates for the period 1918 through 1956 appear in the July 1960 Survey; data for 1957 may be found on p. 19 of the May 1963 Survey, for 1958 on p. 16 of the May 1963 Survey, and for 1959 on p. 17 of the May 1964 Survey.

3. Includes categories of debt not subject to the statutory debt limit.

4. Net Federal Government debt is defined as the gross debt outstanding less Federal Government securities held by Federal agencies and trust funds, and Federal agency securities held by the U.S. Treasury and other Federal agencies. It thus equals Federal Government and agency debt held by the public.

5. Details of Federal obligations may be found in the Treasury Bulletin.

6. Includes State loans to local units.

7. Long-term debt is defined as having an original maturity of 1 year or more from date of issue; short-term debt as having an original maturity of less than 1 year.

8. Comprises debt of farmers and farm cooperatives to institutional lenders and Federal Government lending agencies, and farm mortgages debt owed to individuals and others; farmers' financial and consumer debt is included under the "non-farm" category.

9. Comprises debt incurred for commercial (nonfarm), financial, and consumer purposes, including debt owed by farmers for financial and consumer purposes.

10. Comprises debt owed to banks for purchasing or carrying securities, customers' debt to brokers, and debt owed to life insurance companies by policyholders.

Sources: U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; Federal Home Loan Bank Board; U.S. Department of Commerce, Bureau of the Census, and Office of Business Economics.



external financing as fixed and working capital needs have risen faster than internally generated funds.

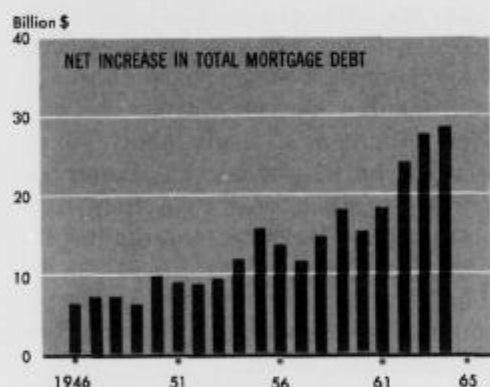
The bulk of this increased financing took the form of a sharp expansion in bank loans. Bank lending to businesses (including noncorporate enterprises) during the first quarter was nearly  $2\frac{1}{2}$  times the pace set during the third and fourth quarters and about equaled the record rate of early 1956.

Other types of external financing—stocks, bonds, and mortgages—showed little apparent increase on an overall basis in the first quarter. A slight rise in stock and bond flotations was offset by a moderate decline in corporate mortgage borrowing.

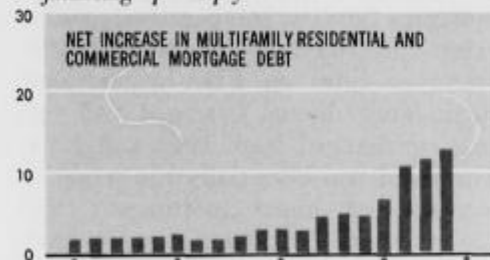
CHART 8

### Increases in Mortgage Borrowing

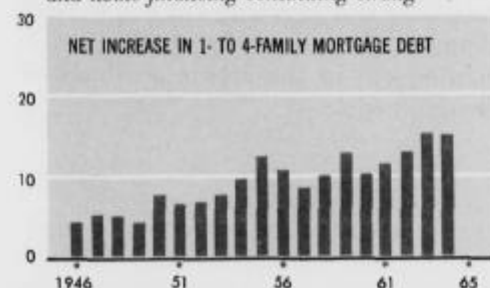
Total borrowing has been high in recent years . . .



with apartment and commercial financing up sharply . . .



and home financing continuing strong



Data: FHLD &amp; OBE

Despite the increase in investment requirements in the first quarter, corporations generally maintained the volume of liquid assets that they had accumulated. Earlier, when corporate investment rose above internal funds, companies often drew down their liquid assets to finance fixed and working capital outlays. With increased interest yields available on short-dated time certificates of deposit and on Treasury bills, there was some buildup in these forms of corporate liquid assets and some decline in holdings of demand deposits.

### Consumer Finance

Financing in the consumer sector exhibited a marked diversity in movement over the past 6 months. Total borrowing was stable from the third quarter of last year to the first quarter of the current year, as a sharp expansion in consumer credit extensions was offset by a decline in mortgage borrowing. Over the same period, consumers stepped up their participation in the stock market and reduced the pace at which they acquired liquid assets.

#### Installment debt up sharply

In the first quarter of 1965, consumers increased their purchases of autos and other consumer durables by \$5½ billion over the strike-affected fourth quarter of last year, and by \$3 billion over the third quarter. A \$1 billion rise in clothing purchases also contributed to an increased demand for consumer installment and charge account accommodation.

Installment credit extensions in the first quarter, at an annual rate of \$71½ billion, were up \$5½ billion from the average recorded for the third and fourth quarters. The rise in auto credit extensions was particularly sharp, but the expansion in extensions of credit secured by other consumer goods was also large. In addition, seasonal decline in charge account and other noninstallment credit was less than normal.

#### Home financing off

With single family residential construction showing little substantial change over the period under review, there was a reduction in the volume of financing of new and used homes. As

noted earlier, savings and loan associations cut back their activity in home mortgage lending, while mutual savings banks and life insurance carriers stepped up their operations. With mortgage financing declining relative to home sales, there was apparently a decline in the volume of mortgage credit extended to finance nonhousing purchases.

#### Liquid assets off, securities up

Over the past 6 months, consumers apparently increased their security purchases and cut back the rate at which they acquired liquid assets. Consumers added less to their liquid asset holdings in the fourth quarter of last year than they had in the third quarter. There was a moderate rise in acquisitions from the fourth to the first quarter, but total net acquisitions failed to match the third quarter rate.

The past two quarters also saw a considerable shift to time deposits at commercial banks and reductions in the amounts added to holdings of savings and loan shares and demand deposits. In large part, this shift reflected the rise in interest rates paid by

Table 8.—Total Nonfarm Mortgage Debt by Borrowing and Lending Groups, by Type of Property <sup>1</sup>

	[Billions of dollars]				
	1960	1961	1962	1963	1964
<b>Total nonfarm residential and commercial mortgages</b> .....	194.0	212.4	236.4	264.0	292.5
Corporate borrowers <sup>2</sup> .....	19.5	22.0	25.8	30.0	33.1
Noncorporate borrowers.....	174.5	190.4	210.6	234.0	259.4
<b>1-4 Family residential mortgage debt</b> .....	141.3	153.1	166.5	182.2	197.7
Savings and loan associations.....	55.4	62.4	69.8	79.4	87.1
Life insurance carriers.....	24.9	25.8	26.4	27.3	28.7
Mutual savings banks.....	18.4	20.0	22.1	24.7	27.4
Commercial banks.....	19.2	20.0	22.1	24.9	27.2
Federal National Mortgage Association.....	5.5	5.4	5.2	4.0	3.8
Individuals and others <sup>3</sup> .....	17.9	19.4	20.9	21.9	23.4
<b>Multifamily residential and commercial <sup>4</sup></b> .....	52.7	59.3	70.0	81.8	94.9
Savings and loan associations.....	4.7	6.4	9.0	11.6	14.2
Life insurance carriers.....	13.9	15.3	17.1	19.4	22.1
Mutual savings banks.....	8.5	9.1	10.1	11.5	13.1
Commercial banks.....	7.9	8.7	10.3	12.2	14.1
Federal National Mortgage Association.....	.6	.7	.7	.7	.6
Individuals and others.....	17.1	19.2	22.7	26.5	30.7

<sup>1</sup> Data for 1929-44 may be found on p. 18 of the September 1953 *Survey*, and for the 1945-56 period on p. 22 of the May 1957 *Survey*; estimates for 1957 are on p. 20 of the May 1962 *Survey*, for 1958 on p. 17 of the May 1963 *Survey*, and for 1959 on p. 18 of the May 1964 *Survey*.

<sup>2</sup> The corporate mortgage debt total is included in the total corporate long-term debt outstanding (table 2).

<sup>3</sup> Includes portfolio loans of the Veterans Administration.

<sup>4</sup> The data represent mortgage loans on commercial and residential property, excluding multifamily residential and commercial property mortgage debt owed by corporations to other nonfinancial corporations.

Sources: U.S. Department of Agriculture, Agricultural Research Service; Board of Governors of the Federal Reserve System; Federal Home Loan Bank Board; and U.S. Department of Commerce, Office of Business Economics.

commercial banks relative to those of other investment media. A similar sharp increase in consumer acquisition of commercial bank time deposits followed the last increase in interest rates, which occurred in early 1962.

As stocks rose to new peaks, there were indications of marked increases in individual participation in the securities markets. Purchases of odd lots and of mutual fund shares—indices of small investor activity—both registered large increases in the fourth and first quarters.

### Government Finance

A pronounced shift in the Federal Government's budgetary position has been evident over the past half year: the deficit on income and product account which had been about \$5 billion (annual rate) during the third and fourth quarters of last year was almost eliminated in the first quarter of this year.

The narrowing in the deficit reflected principally a marked rise in Federal Government receipts; there was little change in Federal Government expenditures. The improvement in receipts was a result of the rapid growth in the economy, which in turn stemmed partly from the expansionary fiscal policy embodied in the Internal Revenue Act of 1964. Other factors that helped to accentuate the rise in receipts were the larger-than-normal final settlements on 1964 individual income taxes and the sharp rise in automobile production and profits.

Following the sharp cuts in income taxes early last year, the national accounts deficit reached a peak of nearly \$8 billion by the spring quarter. During the subsequent business expansion, tax revenues mounted steadily and the administration was able to hold the line on total expenditures.

The narrowing of the Government deficit was not fully matched by a reduction in borrowing. Total net bor-

rowing during the first quarter was down moderately on a seasonally adjusted basis, but the decline was less than the drop in the deficit would indicate.

During the past 6 months, the Federal Government issued somewhat more short-term securities than earlier in order to nudge up short-term interest rates relative to long-term yields. This financing fostered the dual purpose of helping the balance of payments and keeping domestic credit readily available.

State and local governments continued to be substantial borrowers in the capital markets. Municipal issues in the first quarter were up 3 percent over the third quarter level, as local governments continued to meet expanded demands for schools, highways, and other community facilities. State and local governments continued to invest the proceeds of these borrowings temporarily until the funds are needed to pay bills. These increased bond funds, together with the surpluses of State and local retirement funds, were apparently invested to a great extent in commercial bank time deposits and in U.S. Government securities.

### Recent Housing Activity

*(Continued from page 4)*

The entire decline was in starts intended for sale by merchant builders; custom-built home starts were unchanged from the total a year earlier.

From the spring of 1963 through the first quarter of 1964, merchant builders started more single-family units than the market could absorb at current prices. By last spring, the stock of unsold new homes had become rather high, and as a result, builders cut back on starts of new units intended for sale. However, sales held up, and with starts being reduced, inventories of completed homes were pared down. The absence of seasonal factors makes it difficult to be precise about the timing and extent

of change, but it appears that the improvement in inventories relative to sales began after last summer.

Seasonally adjusted figures for starts are not available by type of structure. However, seasonally adjusted permits for all private single-family units showed small advances in the fourth quarter of 1964 and the first quarter of this year. The figure for the first quarter of 1965 was about the same as the average for all of 1964.

### Near-term prospects

It is not clear at the present time whether the first quarter pickup in housing activity represents the beginning of a new upward movement or a temporary interruption of last year's moderate decline. Although incomes are high and should rise further through the year and although mortgage funds are in ample supply, the existence of high vacancy rates in some important areas is a dampening factor.

On the basis of the recent pickup in permits, there is reason to think that the greater part of the sharp decline in multifamily housing activity is now over. Builders of single-family homes seem to be in a somewhat better inventory position now than they were a year ago. However, the market for single-family homes continues to be sluggish, mainly because the number of households in home-buying age brackets has been quite stable.

Both builders and home purchasers are having little difficulty in obtaining mortgage funds at comparatively stable rates. In the first quarter of 1965, mortgage rates on FHA-insured new single-family homes averaged 5.45 percent, unchanged from 1963 and 1964. The trend was essentially the same for conventional home mortgages. Although short-term interest rates have moved up this year, rates on long-term corporate and Government bonds have changed comparatively little, as is pointed out in the article on financial developments.